

**Statement by**

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Before the

House Government Reform Subcommittee on  
Government Management, Finance, and Accountability

Hearing on

The Department of Homeland Security's  
Ongoing Efforts to Improve Agency Financial Management

September 13, 2006

Thank you Chairman Platts, ranking member Towns, and members of the Subcommittee for allowing me this opportunity to testify before you regarding the Department of Homeland Security's (DHS) efforts to improve its financial management practices. As this subcommittee has heard from past witnesses, DHS has many substantial challenges to overcome in its effort to improve financial management. I started at DHS on June 5, 2006. So my statement before you today will not dwell on what has transpired at DHS since its creation, or on the history of efforts such as the eMerge<sup>2</sup> project.

My purpose before you today is to report to you on the challenges facing DHS as I see them, what I am doing about the challenges, and how DHS is complying with the provisions of P.L. 108-330, *the Department of Homeland Security Financial Accountability Act (FAA)*.

Over the next two years, I intend to move DHS financial management beyond that of an agency in transition. My predecessors struggled with the challenges of creating DHS financial management from scratch. The DHS CFO's office started with a dozen staff, most of whom were detailees, and has grown to an office of approximately 80 full time staff. The early leaders of DHS financial management consolidated 18 financial service providers down to 8. They built budgets and the Future Years Homeland Security Plan, and developed the ability to review programs and spending during the year. They learned how to produce financial statements that the auditors could review, and met the aggressive new audit deadline last year. They tackled numerous, thorny issues involving hundreds of millions of dollars between Customs and Border Protection, Immigration and Customs Enforcement, and Citizenship and Immigration Services. I am the beneficiary of all they have accomplished and I will build upon their efforts as I approach the many challenges still facing the Department of Homeland Security.

### **Goals and Framework for Success**

My goals as CFO of Homeland Security are to make measurable, demonstrable progress in the following areas:

- To provide greater visibility into DHS' financial activity, through timely, accurate and useful financial-related data.
- To improve systems and processes eventually leading to sustainable clean audit opinions.
- To provide reasonable assurance about our internal controls over financial reporting, via a sound internal controls program.
- To provide efficient financial management services.
- To integrate the budget process with the policy and planning process.
- To support my counterparts, the Chief Information Officer, Chief Procurement Officer, Chief Human Capital Officer, and Chief Administrative Officer, by supporting integration and standardization of our resource management systems.

Success in achieving these goals rests upon a framework of people, policies, processes, systems, and assurance. This is important because these goals are complementary to each other. Attention is needed in all of these areas, and balance must exist among them to fully realize the spirit of the FAA. Improving the training we offer to our people will make the data we obtain through our financial visibility effort more reliable. Improving our processes will enable us to become more efficient, and we will become more effective as we integrate and standardize our systems. Having clear established policy will provide a framework to measure performance in our accountability and assurance initiatives.

My vision for DHS-wide financial management is to create a quality operation that enhances DHS' ability to achieve its core mission of securing the Homeland and preserving our freedoms. The purpose of sound financial management and resolution of material weaknesses is not just to produce statements for audit; it is a vital activity that supports mission related decisions. For example, the Coast Guard's effort to fix its material weakness in operating materials and supplies is having a meaningful impact on the operations of the Coast Guard. It is cutting down on needless expenses and freeing up valuable, limited space aboard ship. Additionally, Immigration and Customs Enforcement's effort to have contracts and work orders entered timely into the financial system will allow decision makers to have more accurate information with which to manage resources. Reliable systems of internal control help protect the taxpayers' dollars against waste, fraud and abuse.

### **People**

Regarding our financial management staff, I have begun moving out on several fronts. First, I have met with the DHS agency CFO's to gauge their hiring challenges. Many face similar challenges, and rather than working separately, we will work more collaboratively to meet the needs of the Department. I am creating a CFO mentorship program, so that we can identify and train the next generation of CFO's. Employees in financial management tend to progress through either the budget or finance operations. I need to identify our rising stars, and give them a broader exposure to financial disciplines and organizations to ensure DHS has developed future leaders.

We are also collaborating across the Department on training requirements. I believe there is a core set of knowledge that all CFO employees should be exposed to when they come on board in DHS. We will identify that knowledge, document it, and make it available to our new employees.

### **Policy**

DHS lacks a comprehensive set of Financial Management Regulations. As a result, DHS agencies revert to their legacy policies. We need to develop one DHS way of conducting financial management, from budgeting policy, to financial reporting, to what to do when one suspects there may be a violation of the anti-deficiency act. One set of regulations

gives us a common standard and understanding from which we will operate. It simplifies our control environment. It provides us the standards of accountability. It gives our people increased mobility between agencies, because the rules of the game will be the same across the board.

While the CFO's office issues various instructions and guidance throughout the year, we need to develop a deeper and broader set of standard policies. In our effort to do so, we will not seek to reinvent the wheel. Many good policies already exist in the Federal Government. My plan is to outline the set of policies that we need in DHS, to gather together examples of policies from across the government, and then have representative experts from our agencies determine which best fit the DHS operating environment, and represent the best practices of the Federal government. Our progress will be measured as we move down the list of policies we need to develop, so that in FY 2008 we will have the full spectrum of financial policies for DHS. Along the way, we will need to train our employees on our new policies as they are developed.

### **Process**

The centerpiece of our effort to improve our financial processes is our Internal Controls over Financial Reporting (ICOFR) Playbook. I am excited about the ICOFR Playbook because it is a roadmap to achievement of the goals of the FAA. DHS corrective action plans have not been effective. Measurable progress at improving controls related to our 10 material weaknesses is hard to find. The ICOFR Playbook draws from internal controls best practices that we have observed at DoD, Energy and other agencies to establish a proven management control program that measures performance with accountability for improvement. It will also provide the basis for DHS assurance statements required by the FAA.

The ICOFR Playbook, which will be completed this Fall, is the culmination of an effort the OCFO started this Spring, where we worked with the components to identify the root causes that underlie the problems found by our auditors. This is leading to corrective action plans that are more robust and detailed.

We developed an automated tracking system that lets us systemically track the components progress against their corrective action plans. We meet regularly with the components and OMB to track their progress. Rather than just accepting what the components told us were their improvement plans, we have held a series of corrective action plan workshops to meet with the components on how to improve their plans, and brought in outside expertise such as the Office of the Inspector General to bolster our effort.

We completed the workshops with our components in late August and have given feedback to the components on how to improve their plans. As we get in their final corrective action plans this month, we will work with OMB and our OIG to pull together the ICOFR Playbook, which will be the overall DHS strategy and milestones for making improvements to our audit weaknesses. Once we have this final plan, we will measure

our progress against the plan. The OIG is already auditing our development and execution of this plan and we will continue to meet with OMB on the plan. The ICOFR Playbook will evolve over time, as we make progress and as new issues arise. However, we will continue to use this plan as the means to monitor and guide our efforts. The ICOFR Playbook is meant to be our way ahead for the next several years for fundamental financial management improvement across the spectrum of financial activities supporting the DHS mission.

We are tying in the ICOFR Playbook with our A-123 implementation. The auditor's past reports certainly contain a good share of the challenges we face and provide ample opportunity for improvement in developing our roadmap ahead. But we are not stopping at simply fixing what the auditors find. Under the new paradigm of financial accountability, management is responsible for finding, reporting and fixing its own weaknesses. Through our multi-year internal controls assessments, we are documenting the design of our controls. We will then test their operating effectiveness and use the corrective action plan process to monitor our improvements.

One other process improvement I would highlight for you is the development of our Future Years Homeland Security Plan, which is required as part of the DHS Financial Accountability Act. Coming from Defense, I am very familiar with the reasons for 5-year planning and the importance of multi-year budgeting. I have recently led a series of meetings with the DHS leadership on the FY 2008 budget. Fundamental to this review are the out-year targets DHS has set as part of the FY 2007 budget. This was the first time that DHS reviewed its upcoming budget request in the context of previously-established out-year targets.

### **Systems (and *eMerge*<sup>2</sup>)**

With respect to our systems modernization efforts, let me state that *eMerge*<sup>2</sup> is dead. Without getting into the specifics of what went wrong in the past, going forward we do not have plans to launch the development of a new, department-wide financial management system. The project documentation created at the inception of *eMerge*<sup>2</sup> identified the right goals—its goals run along the same lines as those that I have outlined as my goals for DHS financial management. The problem is that success in all of these areas—from consolidated financial reporting, to internal controls, to the standardization of policies and processes was all wrapped around the implementation of a new system. The approach was not balanced enough across the framework of people, policies, processes, systems, and assurance—it was too heavily weighted on systems transformation to lead changes in the other areas. So as our signature systems effort struggled, progress along many related fronts also struggled.

One thing the Department has learned about financial management is that fixing our systems is not the linchpin to our success. Systems are often easy to fault when things go wrong, but the truth is our challenges are as much about our people, policies and processes. We can not expect a new system to fix everything when problems also exist in these other areas.

DHS still has a need to improve its resource management systems. We know that we have some systems that are aging; some that fail to fully meet user requirements; and some that are not fully integrated between finance, procurement, and asset management. To meet these needs, rather than acquiring, configuring, and implementing a new system within DHS, we are looking to leverage investments that have already been made. While DHS had discussed beginning a series of systems migrations this year, I am not going to undertake this approach until I know that the benefits will outweigh the costs. Migrations can be costly and risky. Migrations take time and effort, and are disruptive. Before we begin making migrations, we must have a solid business case and know how the migrations tie into our longer-range plans.

I do not have all of the information I need to make this business case. DHS has many pieces to this puzzle, in part from work done in past audits and from reviews performed under *eMerge*<sup>2</sup>. But some additional review is needed. I need this review to help separate out the process problems from the true systems problems. I expect this review, to be conducted over the next several months, will yield an assessment that tells me which systems today meet the basic standards for financial management and which can meet standards with modest improvement. These are the systems that we will look to leverage as solutions for those who are using systems that fail to meet standards.

As part of our ongoing systems efforts, I will work with the CIO, CPO, CAO, and CHCO about how we integrate procurement and asset management with our financial systems.

### **Assurance**

This final piece of my financial management framework is assurance. This ties in directly to the requirements and expectations of the Financial Accountability Act, which requires the Secretary to provide an annual assurance statement. To support this statement, DHS must have in place a means by which we can test whether our internal controls are well designed and operating effectively. This means that management must move away from reliance on what outside auditors tell us is wrong with DHS, and for management to be in a position to find what is wrong and fix it before it becomes a major problem. Management can not assume that controls are working well just because the auditors don't tell us to the contrary. Management must create an infrastructure that is self-monitoring and can provide internal assurance that a sound, reliable controls environment exists within DHS. To this end, I am creating the CFO's assurance team, which will be an office that directs and monitors our execution of the ICOFR Playbook.

As DHS closes out its corrective action plans, and as managers are willing to provide assurance that improvements have been made and are effective, my assurance team will ensure that we test our processes to validate the improvements. This assurance team will also be my first response team for financial problems, which will invariably surface. As the problems arise, the team will make sure that management takes the appropriate steps, such as developing corrective actions plans, to fix the problems.

### **Working with OMB and the OIG**

In these efforts to improve DHS' people, policies, processes, systems and assurance, DHS will continue to work closely with OMB and the OIG. My philosophy is that openness and transparency with the OIG in the audit process will get us all where we want to be, which is in a position to better secure the Homeland and use the taxpayers' dollars wisely. We are working with the OIG on the internal control audit for this year, as required under the FAA. The OIG and KPMG are conducting a series of performance audits that are helpful in improving our corrective action plans

We have also sought to include OMB to a greater extent in our review this year. Dr. Combs and her staff can bring us a cross-government view on ways to solve their problems. I am working with her and her staff on how we can form a body of government experts to review and improve our plans, including our ICOFR Playbook.

I support the ideas behind the OMB financial management line of business. I think our approach to financial systems—to assess and leverage our best performers—is in keeping with OMB's direction. In time, I see DHS migrating to shared providers, as we need to reach outside DHS to modernize and update our systems.

### **Conclusion**

Secretary Chertoff has expressed as one of his key goals for DHS to develop a culture of metrics and accountability. As CFO, I will help implement that approach. DHS has come a long way since its inception in financial management. I intend to move DHS beyond an agency in transition during my tenure as the CFO. In this statement I have spelled out my key goals, and given you a sense of what I want to achieve during my tenure. I know from my 3 months on the job that I have a big job in front of me. Thank you for your leadership and your continued support of the Department of Homeland Security and its management programs. I would be happy to answer any questions you may have.